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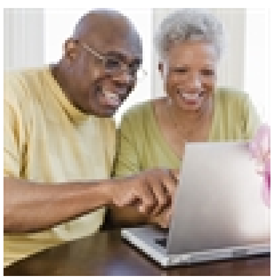
The Long-Term Care Dilemma: Insurers Leaving, Premiums Increasing



If you've planned for long-term care, you've done well because there's a pretty good chance you or your spouse will have a need for care at some point. According to the National Clearinghouse for Long-Term Care (www.longtermcare.gov), about 70% of people over age 65 will need some type of long-term care during their lifetimes and more than 40% will require care in a nursing home. According to the National Clearinghouse, in 2010 it cost an average of $75,000 per year for a semiprivate room in a nursing home, while one year of care at home costs about $19,700 per year.

You may have bought long-term care insurance (LTCI) to help cover the potential costs of long-term care. The Life Insurance and Market Research Association (LIMRA) estimates that over 7 million Americans have LTCI. However, the U.S. Census Bureau estimates that in 2010 there were over 40 million Americans age 65 and older. So only a small percentage of those who face the increasing prospect of long-term care have LTCI.

Companies leaving the business

In spite of the apparent need for LTCI, some of the largest providers of individual LTCI have either stopped selling individual LTCI or they're planning to do so (although some of these carriers will remain in the group LTCI market).

So if the need for LTCI remains, why are some of the biggest insurers getting out of the individual LTCI market? There are a number of reasons, such as poor investment returns due to the chronic low interest rate environment, the fact that more policyowners are keeping their insurance instead of letting it lapse, the rising cost of long-term care, and the fact that people are living longer, leading to larger LTCI payouts.

If your LTCI carrier is getting out of the LTCI business, don't worry--you're still covered. Generally, insurers that leave the LTCI market must either continue to service existing policies or transfer that responsibility to another carrier.

Your LTCI premiums may increase

If you purchased your LTCI policy more than a few years ago, you could be in for a surprise when you get your next premium bill. Several states have allowed insurers to increase their premiums. If your premium does increase significantly, you may be faced with a dilemma: do you keep the insurance and pay the higher premium, or should you stop paying for the insurance altogether and lose not only the insurance coverage, but also all the prior premiums you paid? Here are some alternatives to consider:

- Shorten the length of your insurance coverage. For example, if you have lifetime coverage, decrease it to 3 or 5 years. The National Clearinghouse estimates women need care on average for 3.7 years, while men need care for about 2.2 years.
- Drop or change your inflation protection. This provision can almost double your premium in some cases. Depending on how long you've had your policy, your daily benefit might have increased enough over time to allow you to lower the inflation protection from say 5% compound to 3% simple interest (and lower the cost for that protection), or you might even be able to drop the inflation coverage completely.
- Consider replacing a current costly policy with a new one. Even though you are older, you may find that today's carriers offer policies with fewer "bells and whistles" and at a lower average cost. Also, some insurers now offer life insurance or annuities that also provide

long-term care benefits. For example, many life insurers allow you to accelerate a portion or all of your death benefit to provide a monthly payment that you can use for long-term care expenses (although there may be an additional cost for this provision).